

CHAPTER 13

STATE INSTITUTIONS

INTRODUCTION

Correctional, Mental, and Special Institutions of the State of Indiana each operate as a separate entity as well as a division within a state agency for accounting purposes. Accounting for funds is handled through the Auditor of State system, except for certain local funds which will be discussed in greater detail below.

INTERNAL CONTROLS

Institutions should have internal controls in effect which provide reasonable assurance regarding the reliability of financial information and records, effectiveness and efficiency of operations, proper execution of management's objectives, and compliance with laws and regulations. Among other things, segregation of duties, safeguarding controls over cash and all other assets, and all forms of information processing are part of the internal control system.

Controls over the receipting, disbursing, recording, and accounting for the financial activities are necessary to avoid substantial risk of invalid transactions, inaccurate records and monthly reports, and incorrect decision making.

ACCOUNTABILITY FOR FUNDS

At all times, the manual and computerized records, subsidiary ledgers, the control ledger, and reconciled bank balance should agree. If the reconciled bank balance is less than the subsidiary or control ledgers, then the responsible official or employee may be held personally responsible for the amount needed to balance the fund to the extent allowable under IC 4-24-6-9.

Expenditure of funds must be reasonable and necessary for the operation of the agency, office or department obtaining the goods or services. Payment for items not reasonable and necessary for the operation of the agency or for items personal in nature are prohibited. Officials may be held personally accountable for the improper expenditure of state or local funds.

Supporting documentation such as receipts, canceled checks, invoices, bills, contracts, etc., must be available for audit to provide supporting information for the validity and accountability of monies disbursed.

Audit costs incurred because of theft or shortage may be the personal obligation of the responsible employee.

LOCAL FUNDS

The Indiana Code authorizes institutions to maintain accounts outside of the Auditor of State system for certain funds. These funds are commonly known as Trust Funds, Recreation Funds, and Commissary Funds. In general, the accountability over these funds is covered in IC 4-24-6, although individual institutions may have more specific statutes to supplement these provisions. No funds may be accounted for outside of the Auditor of State system without specific statutory authority.

TRUST FUND

Trust Funds consist of monies held for the use and benefit of, or belonging to patients, students, members, or inmates while they are residing in the institution. Indiana Code 4-24-6-2 requires the superintendent of the institution to keep an accurate accounting of the receipts and disbursements of Trust Funds on books and records in accordance with the accounting procedures prescribed by the State Board of Accounts.

Specific Accounting Procedures

Individual subsidiary accounts must be kept for each patient, student, member, or inmate detailing transactions to the individual account and showing an exact record of the balance on hand. At a minimum, the detail should consist of the transaction date, type of transaction, check or receipt number, amount of transaction, and resulting balance on hand. A control account consisting of the total fund transactions and balances should also be maintained. To ensure accuracy, the control account and individual subsidiary accounts are to be reconciled to each other and to the bank statement on a monthly basis.

The interest earned on the Trust Fund balance should be transferred to the Recreation Fund on a monthly or quarterly basis.

Individual accounts should not be allowed to incur a negative balance.

Checks and receipts should be prepared timely and not signed in advance of the event or transactions.

Trust Fund receipts should be deposited daily in accordance with IC 5-13-6-1.

RECREATION FUND

The Recreation Fund was established in IC 4-24-6-6 to collect and disburse funds for the direct benefit of patients, students, members, or inmates of the institutions. The funds are to be used at the discretion of the superintendent, subject to the policies and approval of the agency having administrative control over the institution, for the direct benefit of persons who are inmates, patients or students, and shall not be used for any purposes which are covered by state appropriations. Officials or employees may be held personally accountable for the improper expenditure of Recreation funds. Sources of the Recreation Fund, listed in IC 4-24-6-7, are:

- (1) Gifts to the fund.
- (2) Profits from the operation of a commissary or canteen.
- (3) Interest earned by deposit of trust funds in public depositories, or income derived from trust funds invested in United States government securities, except as not applicable under IC 4-24-6-4.
- (4) Sale of items produced in occupational therapy.
- (5) Income derived from any kind of benefit entertainment for the inmates or patients.

- (6) Any other money derived from any source that is not legally prohibited.
- (7) Any money derived from the income of any trust fund which has been deposited in any special fund of the institution.

Accounting Procedures

A complete record of all receipts and disbursements must be maintained in a Recreation Fund ledger. Subsidiary accounts for specific sources and/or uses of funds may be established for ease of accountability. If subsidiary accounts are maintained, transactions should be detailed to show the transaction date, type of transaction, check or receipt number, amount of transaction, and resulting balance on hand. The number of subsidiary accounts should be limited to no more than necessary to reasonably account for the funds. Inactive subsidiary accounts should be closed and the remaining balance combined with the unrestricted subsidiary account. In addition, a control account consisting of the total fund transactions and balances should also be maintained. To ensure accuracy, the control account and individual subsidiary accounts are to be reconciled to each other and to the bank statement on a monthly basis.

Each Recreation Fund disbursement should be documented with the following information:

1. Purpose for the disbursement.
2. Person and department requesting the purchase.
3. Date requested.
4. Date paid, amount of payment, and check number.
5. Written approval of the superintendent or designee.
6. Vendor invoice.
7. Verification that the goods were received.

Special consideration should be given to the appropriate types of disbursements to be made from this fund as shown in IC 4-24-6-6.

Equipment purchases should be itemized and added to the Institution's or the Auditor of State Fixed Asset Inventory in compliance with state fixed asset policies (See Chapter 10).

All vending machine profits and commissions are to be deposited into the Recreation Fund.

Public funds generally are exempt from the payment of sales tax on qualifying purchases. Individuals making purchases from Recreation Fund should be provided with the State's tax-exempt number.

Recreation Fund receipts should be deposited daily in accordance with IC 5-13-6-1.

Checks and receipts should be prepared timely and not signed in advance of the event or transaction.

INVESTMENT OF FUNDS

Indiana Code 4-24-6-2 requires that Trust and Recreation funds be deposited in depositories that are either members of the Federal Deposit Insurance Corporation, the Federal Savings and Loan Insurance Corporation or may be invested in government securities of the United States.

Investments must be itemized on the monthly financial report submitted to the agency having administrative control over the institution. In addition to the monthly report, if an agency has several investments, an investment ledger may be necessary to properly account for the principal and interest. At a minimum, an agency must record all amounts in its records and reconcile these amounts on a monthly basis.

COMMISSARY FUND

Commissary Funds, also known as Canteen Funds, are used to account for receipts and disbursements associated with a commissary operation. Commissary Operations vary greatly depending on the type of institution involved, as discussed below.

General Accounting Procedures

A ledger should be maintained to record the transaction date, type of transaction, check or receipt number, amount of transaction, and resulting balance on hand. Each month the ledger is to be reconciled to the bank statements and the profits should be calculated. A reasonable amount of the profits should be transferred to the Recreation Fund on a monthly basis.

Operational procedures should be developed by institutions operating canteens with cash sales to ensure that a full and accurate accounting of the Canteen Funds is maintained. The procedures should establish a method of verifying that all receipts are deposited to the Canteen Fund and that disbursements are proper for the fund.

Commissary Fund receipts should be deposited daily in compliance with IC 5-13-6-1.

Commissary Fund (Department of Correction Institutions)

The Commissary provides offenders the opportunity to purchase for personal use items not provided by the institution. Commissaries are to be operated exclusively for the benefit of offenders. In order to ensure accountability in the operation of commissary activities, the following procedures shall be used:

1. Orders should be taken on a weekly basis for items that can be purchased from the Commissary.
2. The orders should be sent to the Trust Fund Department to verify that the offender has a sufficient balance to purchase the items. Then, orders are charged to the offender's accounts and sent to the Commissary to be filled.
3. A check made payable to the Commissary account for the total sales for the week should be written against the Trust Fund and be deposited in the Commissary account.
4. A physical inventory is to be completed on the last working day of the month.
5. The cash balance of the Commissary account is to be reconciled to the bank statement on a monthly basis.
6. The Business Administrator is to prepare the "Commissary Fund Balance Sheet" on a monthly basis. It should include the following:
 - Statement of Changes in Fund Balance
 - Bank Reconciliation Statement
 - Commissary Fund Detail of Receipts and Disbursements
 - Commissary Fund Operating Statement
 - Application of Net Income
7. Profits from the Commissary are to be transferred at least annually to the Recreation Fund.

Canteen Fund (Division of Mental Health Institutions)

Canteen Funds should be handled similarly to Commissary Funds. However, instead of ordering items, patients order "coupons" to be redeemed in the Canteen. The Business Office should reconcile the cash and redeemed coupons to the Canteen Manager's Report prior to deposit. Cancelled coupons should be retained for audit by the State Board of Accounts.

MONTHLY FINANCIAL INFORMATION

Each institution should file monthly financial statements for its local funds with the state agency having administrative control over the institution. Institutions must use the official approved form applicable to their state agency. Changes may not be made to the approved form without approval of the State Board of Accounts.

MAINTENANCE FUNDS

Indiana Code 12-24-13-4 provides that each patient or his responsible party are liable for the cost of treatment and maintenance in a state developmental center or mental hospital under the administrative control of the Family and Social Services Administration (FSSA). Maintenance Funds are used to account for the collection of these charges. Collections consist of receipts from the patient or responsible party, private insurance, and Medicare. Medicaid is also billed by the institution but collected by FSSA. Collections are to be deposited daily in a designated public depository. Each month, all money collected shall be forwarded to the Treasurer of State to be deposited in the Mental Health Fund.

General Accounting Procedures

Individual subsidiary accounts must be kept for each patient detailing all transactions to the individual accounts and showing an exact record of the resulting account balances. A control account should be maintained showing the total fund transactions and resulting fund balance. Accurate balances of amounts due from patients or responsible parties, private insurance, and Medicaid and Medicare must be maintained. To maintain proper accountability, the individual subsidiary accounts must be balanced to the control account monthly. The control and individual subsidiary accounts should be reconciled to the bank statement monthly.

Receipts for the Maintenance Fund should be deposited daily in compliance with IC 5-13-6-1.

Indiana Code 12-24-14-4 requires that on the first day of each month, or within three (3) days thereafter, all money deposited shall be forwarded to the Treasurer of State to be deposited in the Mental Health Fund. The institution should properly complete a Report of Collection and submit it together with a check made payable to the Treasurer of State.

Billing Procedures

Institutions have the responsibility of obtaining complete financial information during the admission process and to ascertain whether reimbursement will be made under personal payment responsibility, insurance coverage or eligibility for entitlements.

The Patient Accounts Office at each institution is responsible for the proper, complete and timely billing of charges. The billings to Medicaid, Medicare or private insurance should be done on a monthly basis. Billings to the patient or responsible party should be done monthly, quarterly, or as otherwise arranged in the patient's maintenance agreement. Collections received should be reconciled to charges billed on a monthly basis.

Per current FSSA procedures, following patient discharge, all open accounts with unpaid balances are to be continuously billed for five months. After six months, the account may be transferred to FSSA's Reimbursement Section for continued collection efforts, or subsequent write-off upon consent of the Attorney General's office.

CAFETERIA COLLECTIONS

Cafeteria meals may be purchased at each institution by employees for \$0.50 and by visitors (non-state employees) for \$1.00. Tickets are typically sold in books of 10 for \$5.00 to employees and individually to visitors for \$1.00 each. To ensure the accountability over meal ticket sales, the following procedures are to be used:

1. All meal tickets must be prenumbered and issued in sequence.
2. A meal ticket log must be maintained which includes the signature of the purchaser, date sold, ticket number, and amount collected.
3. Collections shall be reconciled to the log for agreement and deposited daily in compliance with IC 5-13-6-1.
4. Daily collections are to be posted to the ledger.
5. At month end, a bank reconciliation is to be performed.
6. Collections for the month are to be deposited as a miscellaneous receipt (490000) to the institution's General Fund fund/center. Collections may not be deposited as a refund of expenditure to the institution's operating account.
7. Meal tickets must be safeguarded at all times.

ACCOUNTING FOR PETTY CASH

State institutions may keep small amounts of petty cash on hand to facilitate the day to day operation of the institution. Petty cash funds of a local fund or Special Disbursing Officer fund should be no more than reasonably necessary. The purpose of the disbursement must comply with the restrictions for the appropriate fund and must be adequately documented. Employees should use the institutions tax-exempt number to avoid paying sales tax.

Petty cash should be replenished as necessary. When needed, a check should be made payable in the name of the person going to the bank. In no case should a check be made payable to cash, resulting in the check becoming "bearer paper."

FEDERAL GRANTS

Certain institutions receive some type of federal financial assistance. The federal assistance can come directly from the federal government or as a subgrant through another agency. Accounting procedures for federal grants are more specifically addressed in Chapter 12, "Accounting for Federal Programs."

As previously stated, there is no authority to account for funds outside of the Auditor of State system. Accordingly, federal grants may not be accounted for through the institution's local bank accounts.

COUNTY CLOTHING REIMBURSEMENTS

Indiana Code 12-24-6 provides for reimbursement from counties to state mental institutions for clothing provided to indigent patients. These collections are to be deposited into the County Clothing Fund (1000/422000/214020). Collections should not be deposited as a refund of expenditure to the institutions operating account.

UNCLAIMED PROPERTY

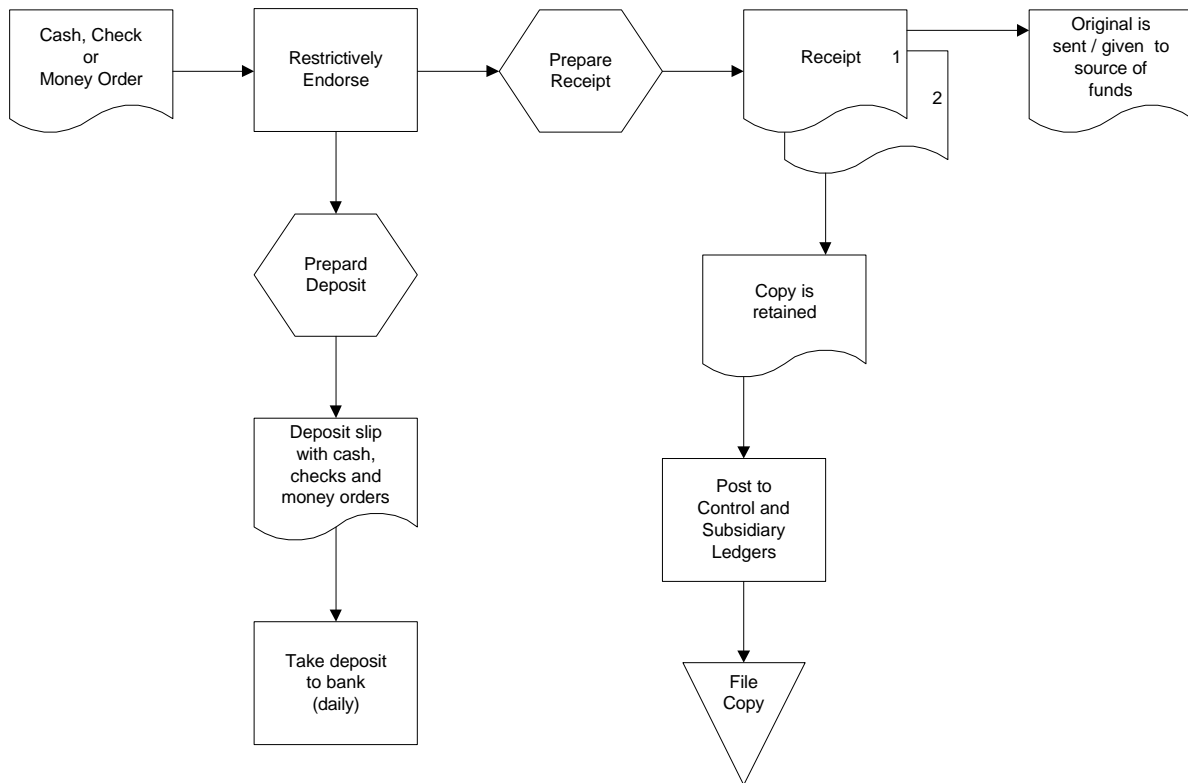
Indiana Code 32-9-1.5 provides that checks which have been issued and outstanding for one year is presumed to be abandoned and is to be remitted to the Attorney General's Office as unclaimed property. Contact the Attorney General's Unclaimed Property Division for forms and instructions for transfer.

EMPLOYEE FUNDS

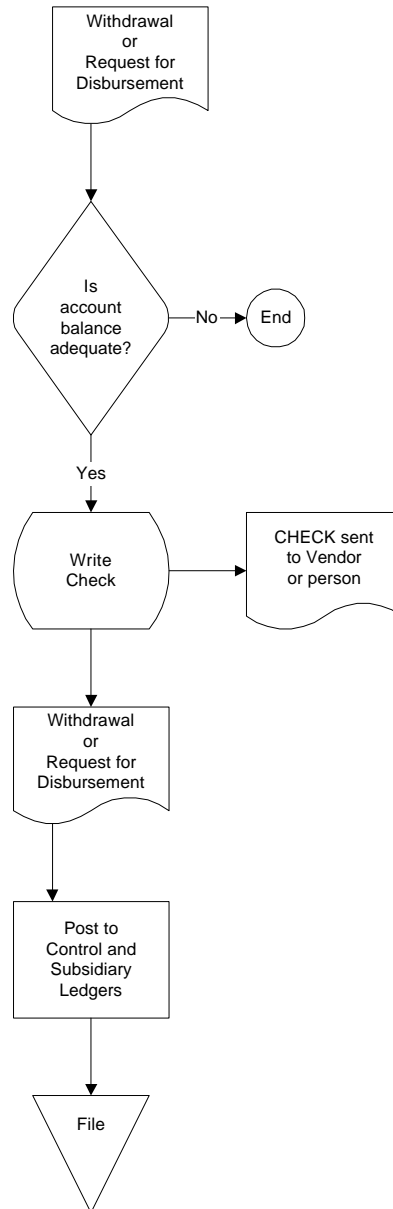
Employees of institutions occasionally raise monies to purchase items of a personal nature such as flowers or employee appreciation items. These employee funds may not be accounted for through the accounts of the institution.

RECEIPTS

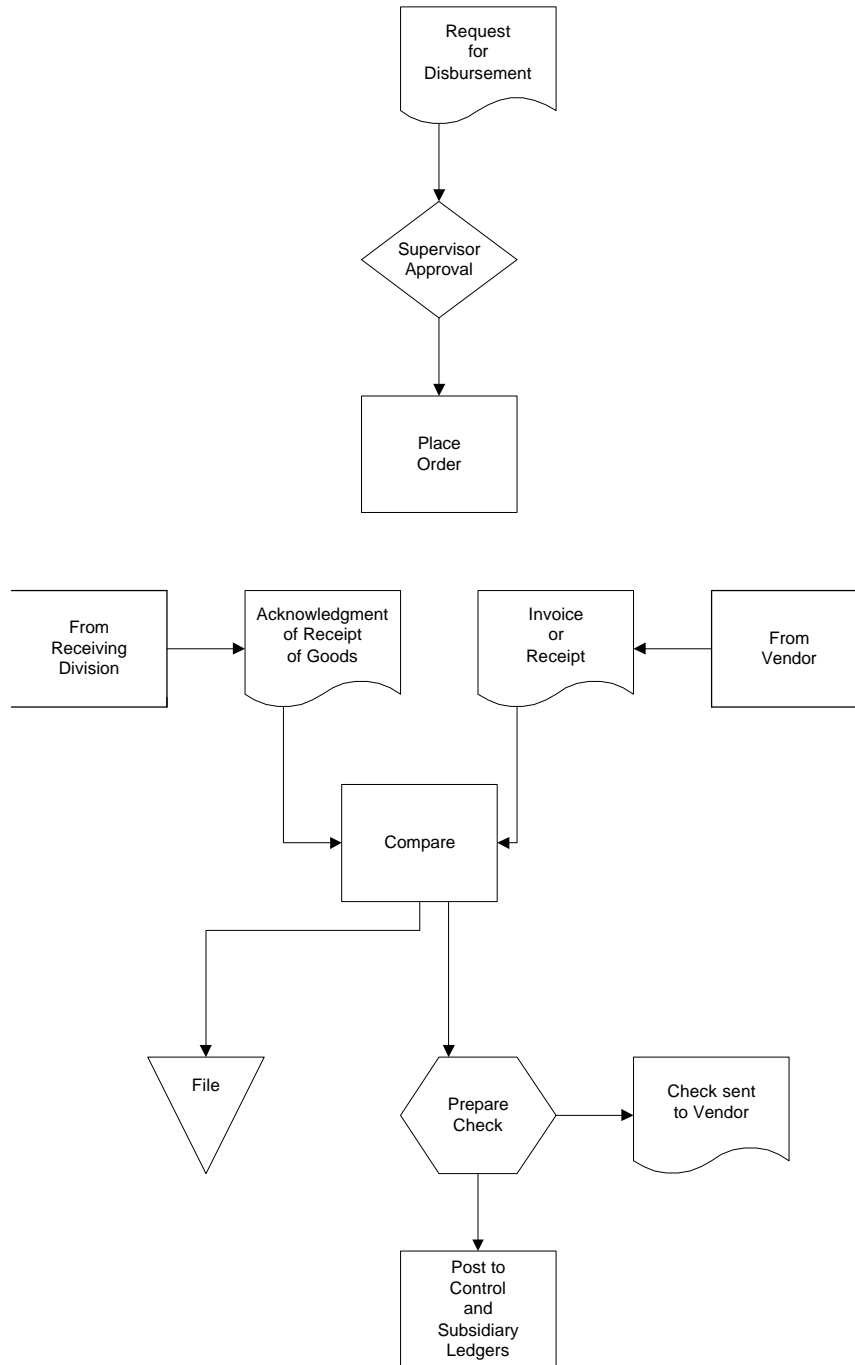
Trust and Recreation Funds



TRUST FUND DISBURSEMENTS

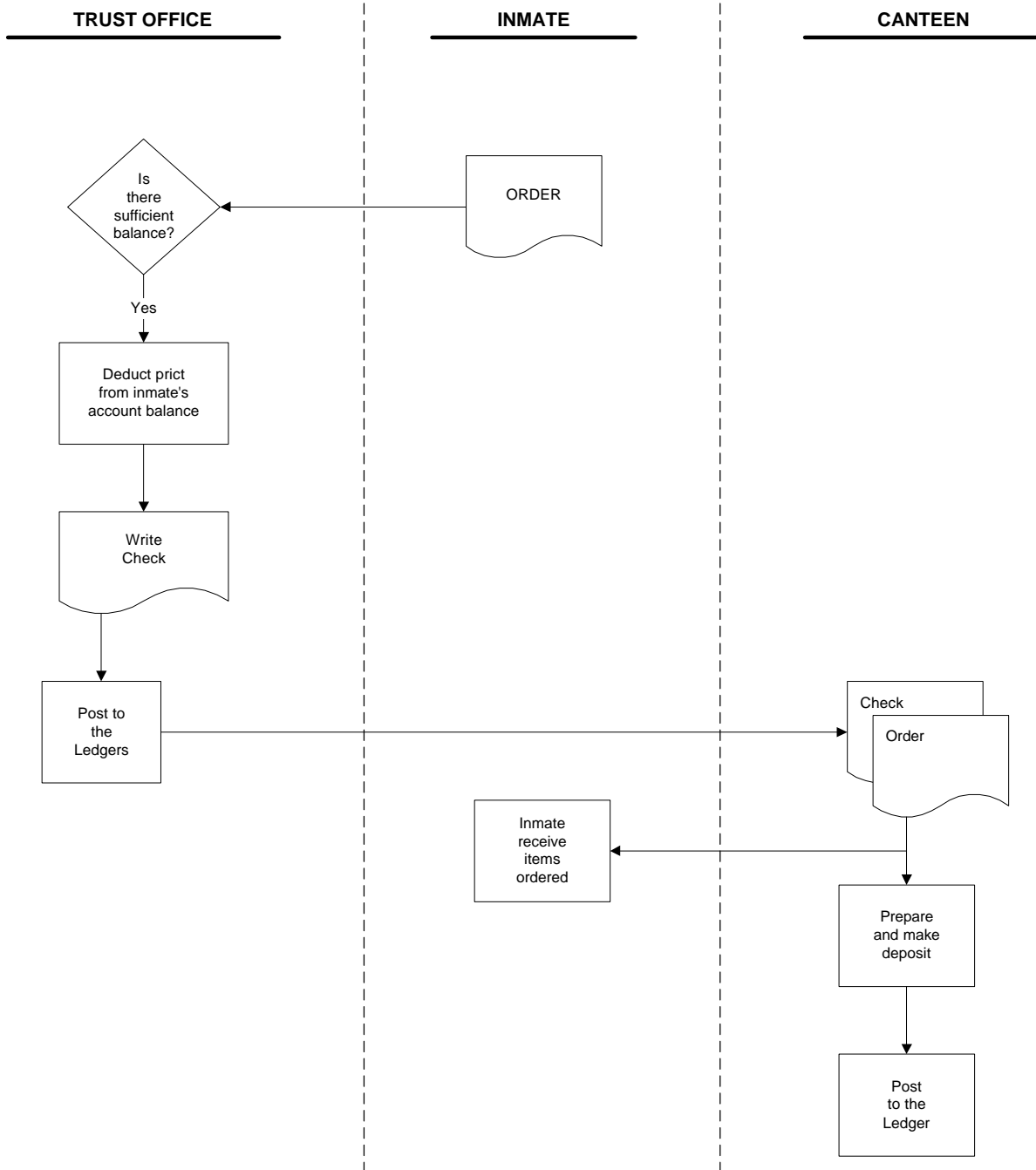


RECREATION FUND
DISBURSEMENTS



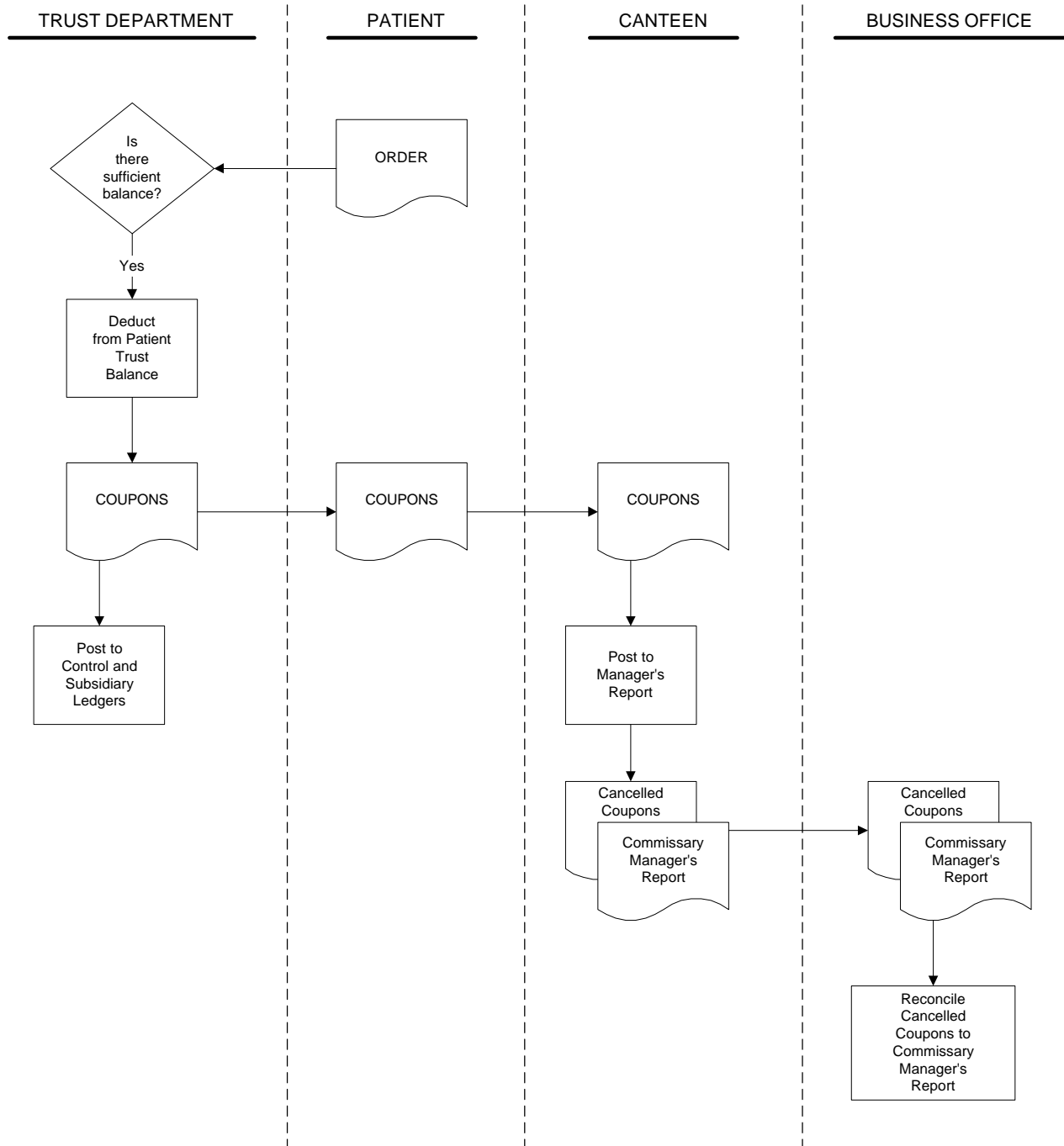
COMMISSARY FUND

DEPARTMENT OF CORRECTION



COMMISSARY FUND

DIVISION OF MENTAL HEALTH



CAFETERIA FUND

